

HECB RECOMMENDATIONS FOR 1999-2001 HIGHER EDUCATION CAPITAL BUDGET

December 1998

OVERVIEW

At the September 25, 1998 meeting of the HECB, the state's four-year institutions of higher education and the State Board for Community and Technical Colleges briefed the Board on their respective 1999-2001 capital budget requests. Their requests total \$985 million in new appropriation authority for capital projects. Of this total request amount, the institutions are seeking \$849 million in General Obligation bonds to finance requested projects. The balance of the institutions' request (\$136 million) consists of proposed funding from dedicated cash accounts and other local sources.

Following the September meeting, the Capital Budget Subcommittee met to consider all aspects of the capital budget and formulated its recommendations to the full Board. The development of these recommendations was guided by the policies and priorities of the 1996 Comprehensive Master Plan for Higher Education, as well as state law which requires the Board to submit biennial budget recommendations "...based on the state's...higher education goals, objectives, and priorities...(of the) comprehensive master plan."¹

In summary, the Board recommends a total \$769 million in higher education capital spending for the 1999-2001 biennium.² This total funding level is considered fundamental to accomplishing the central priority of the state's 1996 master plan, *Access to Quality*. As shown in Table II (page 11), this proposal consists of two funding-level categories: **Critical Funding** and **Essential Funding**.

The **Critical Funding** category proposes \$730 million in new appropriation authority for higher education capital projects. This funding level includes:

1. Projects with prior legislative authorization for predesign or design.
2. Projects responding to emergent program requirements.
3. Projects needed to address immediate life-safety and facility preservation needs.

Of the recommended **Critical Funding**, \$512 million would be financed through state General Obligation bonds and \$218 million through cash and other funds.

¹ RCW 28B.80.330

² As discussed later, 1999 supplemental budget funds for the community and technical colleges are recommended in addition to the proposed 1999-2001 Capital Budget recommendation.

Essential Funding Level. Additionally, the Board recommends that \$39 million in General Obligation bonds be authorized to support projects that are considered ***essential*** for meeting higher education's capital needs in the 1999-2001 biennium. Projects contained in this category are justified for funding in the 1999-2001 biennium on the basis of state policy priorities, higher education program demand, or facility preservation.

In addition to this capital spending recommendation for the ensuing, 1999-2001 biennium, this proposal supports and recommends the request of State Board for Community and Technical College for \$49 million from the state General Fund in the 1999 supplemental budget for four emergent project needs.

The remainder of this report defines and describes these recommendations and discusses the process and rationale used in arriving at the recommended 1999-2001 Capital Budget for higher education.

CONTEXT OF THE 1999-2001 HECB CAPITAL BUDGET RECOMMENDATIONS

Revenue Assumptions

As an introduction to the higher education budget conferences held by the Board on September 25, 1998, staff from the Governor's Office of Financial Management (OFM) provided a briefing on operating and capital budget revenue estimates for the 1999-2001 biennium.

OFM staff advised the Board that the Governor's 1999-2001 Capital Plan would assume, under the existing statutory debt ceiling³, about \$915 million in new General Obligation bond proceeds available for the 1999-2001 biennium. Additionally, OFM staff discussed the potential carry-forward costs of capital projects already in the "pipeline" (discussed below), and emergent statewide needs not previously considered in the Governor's ten-year capital plan.

In consultation with the Board's capital budget subcommittee, the General Obligation Bond (GOB) revenue assumption for the 1999-2001 biennium of \$915 million was used to arrive at a "target" higher education GOB level for the 1999-2001 biennium. As shown in Table I (page 10), a *GOB Revenue Target* of \$512 million, or 56 percent of the total GOB bond authorization of \$915 million, was established. This revenue target is based on two considerations:

³ The statutory debt ceiling limits the amount of debt service in any future fiscal year to seven percent of the average of the prior three years' general fund revenue.

1. Capital appropriations for higher education will need, notwithstanding some available additional capacity at the main campuses⁴, to increase above current funding levels in order to meet state goals for access and program quality. The proposed GOB funding level for higher education recognizes that a larger allocation is needed to accommodate increased enrollments and an aging, and, in many cases, deteriorating physical plant.
2. Several highly important and high-cost higher education projects, previously funded by the Legislature for design, are now ready for construction. Seven of these projects alone will require \$309 million in construction phase funding. Higher education's "share" of the 1999-2001 GOB authorization will need to be greater than that allocated in the current biennium because of the importance of continuing these projects, as well as responding to: (1) the capital needs of the community and technical colleges, and (2) the facility preservation and modernization needs of the four-year institutions. As shown in Table I (page 10), higher education received 48 percent of the GOB authorization in the 1997-1999 biennium.

From a statewide perspective, the capital needs of higher education must be considered in the total context of state capital demands and revenue. In this regard, three options are available to state lawmakers to increase the availability of revenue to support capital budget needs:

1. adopting a 1999-2001 GOB at the constitutional debt limit⁵,
2. appropriating general fund reserves or revenues beyond the I-601 expenditure limit, and
3. identifying a new source of revenue to help finance capital projects.

In this regard, the Board recommends that two projects whose importance and justification goes beyond higher education-program need be funded in the 1999-2001 budget from the State General fund. As discussed in greater detail later, it is proposed that the University of Washington Law School facility, and the Washington State University Health Sciences facility in Spokane, be funded as expenditures not subject to the I-601 expenditure limit.

⁴ The HECB, in consultation with OFM, the four-year institutions, and the SBCTC is currently updating capacity estimates of existing higher education facilities. This information will be provided to the Governor and Legislature in January 1999.

⁵ The state's constitutional debt ceiling limits the amount of debt service in any future fiscal year to nine percent of the average of the prior three years General Fund revenue.

Capital Planning Considerations

The Governor's Office of Financial Management uses a ten-year capital planning process to assist decision-makers in the preparation of the biennial capital budget. In this process, major capital projects — those in excess of \$5 million — are planned and budgeted in three phases: pre-design, design, and construction. In addition to providing important points of project cost and scope review, the three-phase project funding procedure provides state decision-makers with the opportunity to evaluate the policy implications/justification of major projects before significant commitments of capital funds are made for design and construction.

An important implication of this process is that significant policy choices for future capital spending are reflected in decisions about projects with relatively minor current costs — the projects proposed for pre-design⁶. The decision to fund the pre-design phase of a project is not *necessarily* a commitment to fund a project's design and construction in future biennia. However, the future costs of these projects are significant and must be considered when developing *both* the ensuing biennia budget recommendations as well as the long-term capital spending plan.

In this regard, \$531 million or nearly 55 percent of the institutions' total new appropriation requests of \$985 million is to support projects that have received previous funding for either predesign or design⁷. Further, the future costs of projects for which predesign or design funds are being requested by the institutions total \$1.3 billion⁸.

It is clear that, even under the proposed increase in GOB appropriations to higher education, the deferral of some previously funded projects will be necessary unless additional revenue is made available, as discussed above.

Statewide Priorities

As part of its authorizing legislation (28B.80 RCW), the Higher Education Coordinating Board is required to review, evaluate, and make recommendations on the operating and capital budget requests of the state's public institutions of higher education. As specified in the enabling statute, the Board's budget recommendations are to be based on:

1. The role and mission statements of each of the four-year institutions and the community and technical colleges;
2. The state's higher education goals, objectives, and priorities;
3. The state's Comprehensive Master Plan for Higher Education; and,

⁶ Generally, pre-design funding constitutes about 1.5 percent to 2.5 percent of the entire cost of a project.

⁷ See Appendix 5 – *Carry-Forward Projects*

⁸ See Appendix 4 – *Future Cost Analysis*

4. Guidelines that outline the Board's fiscal priorities.

The above legislative mandate offers the Board an opportunity to assume a distinct role in the state's budget process. Specifically, within the context of its planning and coordination mission, the HECB is asked to advance expenditure recommendations reflecting *statewide priorities*. Accordingly, the HECB, when developing its capital budget recommendations, is asked to be mindful of previous institutional commitments, but also responsive to changing demands and opportunities facing higher education as a whole.

The state's Comprehensive Master Plan for Higher Education⁹ provides the policy context for the capital budget recommendations. The Master Plan advances a number of strategic goals and challenges concerning the state's higher education system. Principal among these initiatives is the need to provide quality programs in an equitable and accessible manner, to an additional 84,100 (FTE) students by the year 2010. The Master Plan calls for providing these services in a manner that is accountable and will realize a return on investment.

These policies and goals were used in developing the capital budget recommendation framework discussed below.

BUDGET RECOMMENDATION FRAMEWORK

Capital Investment Goals: *The Board's Fiscal Priorities*

From the Master Plan, two overall capital investment goals were derived and used to guide the development of the 1999-2001 capital budget recommendations.

The investment goal of *providing for increased enrollments* responds to increased program demand resulting from both the "baby-boom echo" and the training and retraining needs of nontraditional students. This investment goal supports the Master Plan policy of providing additional access in an equitable and accessible manner.

The investment goal of *ensuring quality in the learning environment* responds to the Master Plan policy that quality programs be maintained and provided to increasing numbers of students.

Investment Strategies: 1999-2001 Funding Recommendations

⁹ The Comprehensive Master Plan is updated every four years and, at any one time, consists of a number of documents reflecting Board policies and plans. These documents include "Building a System: The Washington State Master Plan for Higher Education" (1987); "Design for the 21st Century: Expanding Higher Education Opportunity in Washington" (1990); "A Commitment to Opportunity: 1992 Update to the Master Plan for Higher Education" (1992); and "The Challenge for Higher Education: Access with Quality" (1996).

Within each of the investment goals, capital investment strategies were used to organize and prioritize recommended capital projects.

Providing for Increased Enrollments

Three strategies were formulated to address this investment goal: ***branch campus development, main campus growth for additional enrollments, and development of off-campus centers.***

The 1996 Comprehensive Master Plan for Higher Education calls for achieving certain rates or levels of public participation in postsecondary programs by the years 2010 and 2020. Specifically, the Master Plan calls for lower-division enrollments to increase at the rate of population growth (also referred to as “Current Participation Rate”), and upper-division and graduate enrollments to meet the national average by the year 2010 and the national 70th percentile by the year 2020.

Underlying these goals are two important policies. First, the Legislature has, in authorizing the formation and development of branch campuses, provided explicit guidance concerning the priority of increasing access in the “underserved urban areas” of our state. Second, a central policy of the 1996 Master Plan has been to ensure ***equitable access*** to postsecondary education.

Using these policies as guidance, capital projects falling in the three investment strategies of ***branch campus development, main campus growth for additional enrollments, and development of off-campus centers*** were prioritized on the basis of the participation rates by students’ county of origin¹⁰. In this analysis¹¹, each project/campus was analyzed by its 1996 enrollment “draw” from Washington counties. Projects serving students from lower participation-rate counties were ranked higher than projects serving students from higher participation-rate counties. Projects in locations serving students primarily from counties currently at or above the Board’s participation rate goal for the year 2010 were ranked the lowest in need for 1999-2001 capital funding.

¹⁰ Appendix 3 provides a summary of the participation rate analysis used in this evaluation.

¹¹ Projects justified on statewide policy/priorities (not solely higher education program need) and community and technical college projects previously prioritized by the State Board for Community and Technical Colleges, were excluded from this analysis and prioritization.

Ensuring Quality in the Learning Environment

Two strategies were developed to address this investment goal: *preservation* and *modernization*.

The **Preservation** strategy includes projects needed to sustain or return a building or system to a satisfactory level of functional performance. Capital projects in this category do not involve a change in building program and use. Repair, renovation, and retrofit projects are included in this category.

The **Modernization** strategy includes capital projects needed to improve or change the use or performance level of a building or system in order to support an acceptable level of program quality. Renovation as well as new building construction or system installations fall in this category.

Capital project recommendations for the preservation and modernization strategies are prioritized on the basis of building/system use. Generally, those projects supporting programs or functions central to the role and mission of the institution are prioritized higher than projects that, while worthwhile, are proposed to support less critical program requirements.

1999-2001 CAPITAL BUDGET RECOMMENDATIONS

Tables II - IV (pages 11-13) summarize the HECB capital budget recommendations.

Table II compares the HECB recommendation to the institutional request, and includes multi-institutional projects in a separate category (Multi-Institutional Initiatives). As provided in both the Board's 1999-2001 Capital Budget Guidelines and the Office of Financial Management's 1999-2001 Capital Budget Instructions, the four-year institutions and the State Board for Community and Technical Colleges were not asked to prioritize "partnership" projects within their main campus capital budget proposal. These projects involve cooperative initiatives among the four-year and two-year public institutions throughout the state to address upper-division access needs through "2+2" or transfer programs at existing community colleges and other locations.

Additionally, Table II includes the recommended 1999 supplemental budget funding of four projects for the Community and Technical Colleges. These projects, totaling \$49 million, reflect emergent space and equipment needs for Centraila, Bellevue, Olympic, and Cascadia Community Colleges.¹²

¹² See Appendix 1 for project details.

Table III provides the same comparison of the institutional request to the HECB recommendation as shown in Table II, but integrates the multi-institutional projects into the total of the lead or sponsoring institution. As in Table II, Table III also displays the 1999 SBCTC Supplemental Budget funding.

Table IV shows the distribution of the HECB Capital Budget recommendation by the Board's Capital Investment Strategies. As shown, of the combined total proposed 1999 Supplemental and 1999-2001 Capital Budget recommendation of \$798 million, about 55 percent (\$441 million) is needed for increasing enrollment capacity, and about 45 percent (\$356 million) is needed for the preservation and modernization of existing facilities.

In addition to Tables I-IV, this report includes five appendices, which provide project-level data and capital expenditure analyses used in developing the capital budget recommendations:

- Appendix 1 displays the capital project recommendations, by the Critical and Essential Funding categories, by institution, and compares these recommendations to institutional requests.
- Appendix 2 provides project level recommendations by the Board's investment strategy categories and by institution.
- Appendix 3 displays the data and summarizes the analysis of county participation rates used in ranking the access-related projects.
- Appendix 4 provides the future-cost analysis of capital projects proposed by the institutions and contained in the HECB capital budget recommendations.
- Appendix 5 lists the 1999-2001 costs of projects previously authorized by the Legislature for either predesign or design.

Statewide Policy/Priority Project Recommendations

The HECB Capital Budget recommendations contain two project recommendations that deserve special discussion and consideration. Specifically, the University of Washington has requested \$69 million to finance the construction of a new law school building on the main campus. The UW is seeking \$46 million in state funds to "partner" with \$23 million in donated funds for this project. While this project was not part of the Governor's initial Ten-year Capital Plan, funds for the design phase of this project were appropriated in the current biennium by the Legislature in 1998.

Additionally, Washington State University has requested \$36 million to undertake construction of the Health Sciences Consortium Facility at the Riverpoint Higher Education Park in Spokane. The design of a new facility at the park was supported by the HECB, the Governor, and the Legislature in 1998. However the scope of this project has changed as a result of the Governor's request and Legislature's directive that the HECB re-examine the role of higher

education in the Spokane area in supporting economic development as well as the delivery of postsecondary programs.

Both of these projects represent important investment opportunities for the state, whose benefits and justification go beyond the Board's charge to recommend capital funding based upon higher education program needs. In the case of the UW Law School Building, an important "benchmark" could be established concerning the "partnership" of public and private funds to realize goals that have statewide and, perhaps, national significance. Specifically, the growth and modernization of the Law Program at the University has not kept pace with the continuing progress of this internationally recognized research institution.

With respect to the WSU Spokane Health Sciences Facility, both the Governor and Legislature have asked the Board look at the Spokane situation from a broader perspective than immediate postsecondary education needs to, in effect, think about higher education as an "engine" for regional and, hence, state economic development opportunities.

In the above context, both projects should be considered "Critical," and funded separately from the funding priorities recommended by the Board for those capital projects related solely to higher education program demand. Using the available 1999-2001 General Fund revenues that exceed the I-601 expenditure limit is considered appropriate for the following reasons:

- Both projects are significant one-time investment opportunities for the state, wherein the use of available General Fund revenues will reduce debt-service burdens on the operating budget.
- Each of the projects provides benefits beyond higher education program demand.
- Funding the construction phase of both projects responds to the intent of the 1998 Legislature (via the appropriation of design funds for both projects).

In addition to this rationale, two other considerations are important:

- The Board's 1997-1999 Capital Budget Recommendations supported the funding of the UW Harborview project out of General Fund revenues (as opposed to bonds) because of the statewide priority of the project and its justification beyond the scope of higher education program demand.
- Without shifting the fund source of either these two, or some other combination of major projects now ready for construction phase, there will not be enough bonding capacity to finance all of the projects approved by the 1998 Legislature for design that now need construction-phase funding.

For a copy of the tables or appendices, please call the HECB at (360) 753-7830.